



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

WENDY L. WATANABE
CHIEF DEPUTY

September 19, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **ARMENIAN RELIEF SOCIETY CONTRACT REVIEW – A
DEPARTMENT OF PUBLIC SOCIAL SERVICES REFUGEE
EMPLOYMENT PROGRAM PROVIDER**

We have conducted a program and fiscal contract review of Armenian Relief Society (ARS or Agency), a Department of Public Social Services (DPSS) Refugee Employment Program (REP or Agency) provider.

Background

DPSS contracts with ARS, a private non-profit community-based organization to provide job-training and employment services to refugees who have resided in the United States for less than five years. The Agency's services include providing language, vocational and on-the-job work training and job seeking skills, assisting participants in retaining employment and paying for work related expenses. The population that ARS serves resides in the First, Third and Fifth Districts.

DPSS pays ARS a fixed fee for each type of service based on budgeted program costs and anticipated service levels. DPSS paid ARS \$582,704 for Fiscal Year (FY) 2005-06 and ARS' contract was for \$877,000 for FY 2006-07.

"To Enrich Lives Through Effective and Caring Service"

Purpose/Methodology

The purpose of the review was to determine whether ARS complied with its contract terms and appropriately accounted for and spent program funds in providing services to the eligible participants. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a selected number of the Agency's staff and clients.

Results of Review

ARS' staff possessed the appropriate qualifications and the program participants interviewed stated that the services they received from ARS generally met their expectations.

ARS used approximately \$22,000 in REP funds to purchase unallowable goods or services. In addition, ARS owed the County \$4,875 in interest income. Subsequent to our review, ARS paid the County the \$4,875 in interest income and deposited the \$22,000 into their REP account to be spent on providing future program services.

The Agency also maintained a cash balance of approximately \$1 million in REP funds in a non-interest bearing bank account. According to the Agency, the cash balance was an accumulation of unspent REP funds from prior years. The County contract allows the Agency to retain the funds to underwrite additional REP services. However, the Agency needs to submit a plan to identify the usage of the funds and the plan must be approved by the County. If the County does not approve the Agency's plan, the County can request that the funds be returned. DPSS, ARS and County Counsel need to work together to determine the appropriate disposition of the funds. As indicated under Review of Report, the Agency's response includes a plan to reinvest the \$1 million in the REP program.

In addition, ARS did not maintain sufficient internal controls over its cash handling procedures. The Fiscal Director reconciled the bank statements, wrote business checks, performed other accounting functions and updated the Agency's accounting system. The lack of internal controls over its cash handling procedures was noted in the prior monitoring review.

The details of our review along with recommendations for corrective action are attached.

Review of Report

On May 8, 2007, we discussed our report with ARS management. In their attached response, ARS management generally agreed with our report. Their response also included the Agency's plan to reinvest the \$1 million in the REP program. We also notified DPSS of the results of our review.

We thank ARS for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC
Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Sona Zinzalian, Executive Director, Armenian Relief Society
Public Information Office
Audit Committee

**REFUGEE EMPLOYMENT PROGRAM
ARMENIAN RELIEF SOCIETY
FISCAL YEAR 2006-2007**

UNSPENT REVENUE

Armenian Relief Society (ARS or Agency) was paid based on a fixed fee for each type of service provided to each participant. The fixed rates were developed by the Department of Community and Senior Services in accordance with State and federal Welfare-to-Work requirements. Factors such as different employment trainings required, length of training, placement barriers, etc. were taken into consideration in developing the rates.

The Agency maintained a cash balance of approximately \$1 million in their Refugee Employment Program (REP or Program) bank account. According to the Agency, the cash balance is an accumulation of unspent REP funds from prior years. Until recently, this cash balance was in an interest-bearing account.

The County contract allows the Agency to retain the funds to underwrite additional REP services for the County sponsored employment training programs. However, the Agency needs to submit a plan to identify the usage of the funds and the plan must be approved by the County. If the County does not approve the Agency's plan, the County can request that the funds be returned to the County.

ARS, DPSS and County Counsel need to work together to determine the appropriate disposition of the \$1 million in REP funds. In addition, DPSS needs to revise the County contract to repay DPSS for future unspent REP funds.

Subsequent to our review, the Agency prepared a spending plan which is attached.

Recommendation

1. **DPSS management work with ARS and County Counsel to determine the appropriate disposition of the \$1 million in REP funds.**

ELIGIBILITY

Objective

Determine whether ARS provided services to individuals that meet the eligibility requirements of the REP.

Verification

We selected 20 (4%) of the 516 program participants that received services during October and November 2006. We reviewed the documentation in the case files to confirm the participants' eligibility for program services.

Results

ARS maintained appropriate documentation to support the participants' eligibility to receive program services.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION**Objective**

Determine whether ARS provided the services billed in accordance with their contract and the program participants received those services.

Verification

We reviewed the documentation contained in 20 program participant case files that received services in October and November 2006. We also interviewed 11 program participants to confirm the services ARS billed to the Department of Public Social Services were provided.

Results

ARS appropriately provided language, vocational and on-the-job work training, job seeking skills, assisted in attaining employment and paid work related expenditures such as, transportation and union dues. In addition, the program participants stated that the services they received from ARS met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING QUALIFICATIONS**Objective**

Determine whether ARS' staff possessed the qualifications required by the contract.

Verification

We reviewed the personnel files of seven employees for documentation to confirm staff qualifications.

Results

ARS' employees possessed the required employment eligibility verification, training, reading, writing and speaking requirements identified in the contract.

Recommendation

There are no recommendations for this section.

CASH/REVENUES**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's financial records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash, and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's bank reconciliations for October and November 2006.

Results

ARS properly recorded and deposited cash receipts timely in the Agency's bank account. In addition, ARS appropriately prepared the bank reconciliations and the reconciling items appeared valid and were cleared in a timely manner. However, as noted in the Internal Control Section of this report, the Agency did not maintain sufficient internal controls over their cash handling procedures.

Recommendation

There are no recommendations for this section.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program reported expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 26 non-payroll expenditure transactions billed by the Agency for October and November 2006, totaling \$18,728.

Results

ARS spent \$10,732 (57%) of the \$18,728 for unallowable program expenditures. Specifically, ARS used REP program funds to pay:

- Late fees and property taxes totaling \$8,572 for the portion of the building the REP program did not occupy.
- Consultant fee of \$2,160 for an appeal on a previously submitted REP Request for Proposal on new contract, which is not allowed.

Subsequent to our review, the Agency deposited the \$10,732 into their REP account to be spent on providing future program services.

Recommendation

2. **ARS management ensure REP Program funds are used solely for allowable expenditures.**

INTERNAL CONTROLS**Objective**

Determine whether the contractor maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, and tested transactions in various areas such as expenditures, payroll and personnel.

Results

ARS did not maintain sufficient internal controls over its cash handling procedures. The Fiscal Director reconciled the bank statements, wrote business checks and performed other accounting functions. The Fiscal Director is the only person with access to the Agency's accounting system. The Agency's fiscal operations is significantly impacted when the Fiscal Director is absent from work.

The Agency's accounting system is on the cash basis of accounting. The County contract requires the contractor to maintain their accounting system on an accrual basis of accounting. As a result, current year funding may have been used to purchase goods or services received in the prior program period.

Recommendations

ARS management:

3. **Ensure that their fiscal operations are adequately separated.**
4. **Train alternate staff to use the Agency's accounting system.**
5. **Ensure the Agency's accounting records are maintained an accrual basis.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether ARS's fixed assets and equipment purchases made with program funds are used for the program and that the items are safeguarded.

Verification

We interviewed ARS personnel and reviewed the Agency's inventory listing. In addition, we performed a physical inventory of 5 (21%) of 24 items funded by the program, totaling \$10,280.

Results

The items purchased with REP funding were used for the program. In addition, the Agency adequately safeguarded the items.

Recommendation

There are no recommendations for this section.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the REP. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed payroll expenditures for seven employees totaling approximately \$15,100 incurred during October and November 2006. We also interviewed staff and reviewed seven personnel files of staff assigned to the program.

Results

The Agency's salaries were supported with timecards and charged appropriately to the program. In addition, ARS maintained personnel files in accordance with the County contract.

However, in December 2006 the Agency paid bonuses totaling \$7,100 to six non-REP and 16 REP staff with REP funds. The County contract indicates that incentive compensation to employees is allowable to the extent the overall compensation is reasonable and paid or accrued according to an agreement between the organization and the employee before the services are rendered, or if there is an agreement to make such payment. The Agency did not have a written policy authorizing the payment of bonuses to employees or an agreement.

Subsequent to our review, the Agency deposited the \$7,100 into their REP account to be spent on providing future program services.

Recommendation

6. **ARS management ensure that disbursements for bonuses are allowable expenditures and in compliance with the County contract.**

COST ALLOCATION PLAN**Objective**

Determine whether ARS's Cost Allocation Plan (Plan) was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed ARS's Plan and reviewed a sample of expenditures incurred by the Agency during October and November 2006 to ensure that the expenditures were properly allocated to the Agency's program.

Results

ARS overcharged the REP program \$4,099. The amount represents costs that should have been allocated to other programs. The allocated costs related to rent, office supplies, internet service, utilities and maintenance. Subsequent to our review, the Agency deposited the \$4,099 into their REP account to be spent on providing future program services.

Recommendation

7. ARS management follow their approved Cost Allocation Plan and only charge allowable REP expenditures to the REP program.

PRIOR YEAR AUDIT FOLLOW-UP**Objective**

Determine the status of the recommendation reported in the prior monitoring review.

Verification

We verified whether the two outstanding recommendations from Fiscal Year (FY) 2005-06 monitoring review were implemented. The report was issued December 11, 2006. In addition, we reviewed the Agency's single audit for the FY ended June 30, 2006

Results

ARS implemented one of the two recommendations in the prior year's monitoring report. The recommendation that was not implemented required the Agency to adequately segregate their accounting and cash handling functions. However, as previously indicated, ARS has not adequately segregated their accounting function.

The Agency's independent single audit reflected \$4,875 in interest earned owed to the County of Los Angeles. The \$4,875 had not been paid to the County. Subsequent to our review, the Agency paid the \$4,875 to the County of Los Angeles.

Recommendation

8. ARS management implement the outstanding recommendation.



ARMENIAN RELIEF SOCIETY
SOCIAL SERVICES
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ADMINISTRATIVE OFFICE

SERVICE OFFICES:

GLENDALE:

517 W. Glenoaks Blvd.
Glendale, CA 91202
Tel: (818) 241-7533
Fax: (818) 241-5755

HOLLYWOOD:

1203 N. Vermont Ave.
Los Angeles, CA 90029
Tel: (323) 669-0471
Fax: (323) 669-1235

STUDIO CITY:

11719 Moorpark Street
Studio City, CA 91604
Tel: (818) 753-8227
Fax: (818) 623-0550

PASADENA:

740 E. Washington Blvd.
Pasadena, CA 91104
Tel: (626) 797-6208
Fax: (626) 798-7872

MONTEBELLO:

420 W. Washington Blvd.
Montebello, CA 90640
Tel: (323) 727-9055
Fax: (323) 727-0059

BURBANK:

361 E. Magnolia Blvd. #C
Burbank, CA 91502
Tel: (818) 566-1932

J. Tyler McCauley, Auditor Controller
Los Angeles County
Hall of Administration
500 W. Temple Street, Suite 525
Los Angeles, CA 90012

Dear Mr. McCauley,

Contract Review Response

Armenian Relief Society (ARS) has reviewed the most recent Draft Report of Contract Review of the Refugee Employment Program, sent by email on August 14, 2007. The Draft Report identified eight (8) recommendations. ARS' responses to those recommendations follow.

Recommendations 1 - Unspent Revenue

DPSS Management work with ARS and County Counsel to determine the appropriate disposition of the \$1 million in REP funds.

Although these recommendations are for actions to be implemented by DPSS, ARS would like to point out that the funds in question have been carried over for numerous years, and that the payment rates for the REP program as it is currently configured, with the current status of the caseload, and the numerous overlaps of contract periods, does not adequately cover the costs of operation. ARS has been able to make up the difference in the costs of operating the program and the payment rates received with funds carried over from previous years. However, many former REP Contractors were forced to terminate their contracts because the paypoints were inadequate to cover operational costs.

ARS has been attempting to resolve this issue with the County for numerous years. A plan to expend the funds over a four-year period by reinvesting them into the REP program has been developed and is attached to this response. The spend-down plan is in compliance with the REP contract and with OMB requirements related to program income.

Recommendation 2 – Expenditures/Procurement

2. ARS management ensure REP Program funds are used solely for allowable expenditures.

ARS management will ensure that all REP Program expenditures are allowable and appropriately allocated.

Recommendations 3, 4, & 5 – Internal Controls

ARS management:

- 3. Ensure that their fiscal operations are adequately separated.**
- 4. Train alternate staff to use the Agency's accounting system.**
- 5. Ensure the Agency's accounting records are reported on an accrual basis.**

ARS has identified an independent accountant who will serve as alternate fiscal support on a contractual basis. ARS' accounting system will be available and linked with the accountant and enable access to records and appropriate separation of duties. Because funds are not available to employ an additional full time staff person to conduct fiscal duties and allocate a salary appropriately across all ARS programs, this contractual agreement is a reasonable solution. The contract for services began at the start of the new fiscal year on July 1, 2007.

ARS also changed its reporting methods to an accrual basis at the change of the fiscal year on July 1, 2007.

Recommendation 6 – Payroll and Personnel

6. ARS management ensure that disbursements for bonuses are allowable expenditures and in compliance with the County contract.

ARS has repaid the funds to the County, and will no longer provide staff bonuses.

Recommendation 7 – Cost Allocation Plan

7. ARS management follow their approved Cost Allocation Plan and only allowable REP expenditures are paid with REP program funds.

ARS maintains its position that the expenses were appropriately allocated to the correct programs. A review of the General Ledger will show the allocations correctly applied to various programs. The checks were written from the REP account and were reimbursed from the appropriate programs to the REP program. While ARS believes that the allocations and expenses were correctly applied, beginning July 1, 2007, all expenses for all programs will be paid from one ARS bank account and appropriately allocated to programs in the General Ledger.

Recommendation 8 – Prior Year Audit Follow-Up

8. ARS management implement the outstanding recommendation.

As indicated in our response to recommendations 3 & 4 above, ARS began working with a contracted Accountant on July 1, 2007. This will enable ARS to additionally segregate accounting functions. It should be noted that ARS implemented numerous changes in response to this finding last year, to the extent that available funding allowed, and believed the recommendation was resolved.

Please call me at (818) 241-7533 ext. 101 if you have any questions regarding this response to the Draft Report.

Sincerely,



Sona Zinzalian
Executive Director

CC: Alfred Becerra, DPSS